

Message Text

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SUBJ: PRESIDENT PEREZ AND MINES MINISTER HERNANDEZ DEFEND
ARTICLE 5 BEFORE BUSINESS AND LABOR ANNUAL CONVENTIONS

REF: CARACAS 4471

BEGIN SUMMARY. AS INDICATED IN REFTEL, THE GOV IS STANDING
FIRM IN DEFENSE OF NEED FOR ARTICLE 5 IN THE OIL NATIONALI-
ZATION BILL. PRESIDENT PEREZ AND MINES MINISTER HERNANDEZ
BOTH ADDRESSED THE FEDECAMARAS ANNUAL CONVENTION LAST WEEK AND
STRESSED THE NEED FOR ARTICLE 5 IN THE BILL, WHICH WILL PERMIT
THE GOV TO MAINTAIN FLEXIBILITY IN ITS DEALINGS WITH OIL
COMPANIES AFTER NATIONALIZATION. MINISTER HERNANDEZ DEVELOPED
THE SAME THEME IN HIS APPEARANCE BEFORE THE CTV ANNUAL CON-
VENTION A WEEK EARLIER. END SUMMARY

1. PRESIDENT PEREZ DELIVERED THE CLOSING SPEECH AT THE
FEDECAMARAS ANNUAL ASSEMBLY ON MAY 11. THE PRIMARY THRUST
OF HIS SPEECH WAS TO REASSURE THE PRIVATE SECTOR THAT THE PEREZ
GOVERNMENT IS NOT ANTI-BUSINESS AND TO REMIND THE ASSEMBLY
OF THE MANY BENEFITS IT RECEIVED FROM THE STATE. REGARDING
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OIL NATIONALIZATION, PEREZ ADOPTED THE TACTIC OF NOT STRESSING

THE SUBJECT. WHILE OIL WAS GIVEN ITS NORMAL PRIORITY OF BEING LISTED FIRST ON THE ASSEMBLY AGENDA, THE MAJORITY OF THE BUSINESSMEN PRESENT WERE FROM OTHER OCCUPATIONS. THEY WERE INTERESTED IN OIL FOR ITS EFFECT ON THE ECONOMY AND THEIR LINE OF BUSINESS, PRIMARILY AND, SECONDLY, FOR A CLUE AS TO WHAT EXTENT THE GOV WILL PERMIT PRIVATE COMPANIES TO PARTICIPATE AFTER NATIONALIZATION. THE ASSEMBLY WOULD HAVE GOTTEN EXCITED ONLY IF PRESIDENT PEREZ HAD NOT DEFINED ARTICLE 5 IN THE

DRAFT BILL.

2. IN HIS ADDRESS PRESIDENT PEREZ DID NOT SPECIFICALLY MENTION ARTICLE 5. HE BEGAN BY STATING THAT OPERATION OF THE PETROLEUM INDUSTRY WILL BE THE UNDERTAKING WHICH AFFECTS THE NATIONAL DESTINY OF VENEZUELA, AND WHEN VENEZUELANS TAKE OVER THE INDEPENDENT RUNNING OF THE INDUSTRY " IN THE NEXT FEW YEARS," HOW THEY DO SO WILL SET A PATTERN FOR EACH SOCIAL GROUP IN THE COUNTRY. HE ACKNOWLEDGED THAT DIFFERENCES HAVE ARISEN OVER THE QUESTION OF NATIONALIZATION, AND ADDED THAT THE ESSENTIAL PROBLEM IS NOT THE ACT OF NATIONALIZATION NOR WHAT THE COUNTRY WILL RECEIVE FROM THE INDUSTRY AS A CONSEQUENCE IN THE FUTURE. RATHER, IT CONCERNS THE CREATION OF AN AUTHENTIC ECONOMIC INDEPENDENCE THAT WILL PLACE VENEZUELANS IN CHARGE OF THEIR NATIONAL DESTING.

3. THE ESSENTIAL DIFFERENCES HE WAS REFERRING TO HAVE ARISEN OVER THE POSSIBILITY OF ESTABLISHING MIXED ENTERPRISES FOR THE TRANSFORMATION (REFINING) AND MARKETING OF OIL. THIS IS AN IMPORTANT ASPECT OF THE IRREVOCABLE DECISION TO RESERVE THE PETROLEUM INDUSTRY FOR THE STATE. WHILE BELIEVING THAT STATE CONTROL OF ALL PHASES OF THE OIL INDUSTRY SHOULD BE A FIRM PURPOSE, PEREZ ADDED THAT IT IS NECESSARY TO RECOGNIZE THE EFFECT THAT TECHNOLOGY AND MARKETING ON THE INTERNATIONAL LEVEL CAN HAVE ON ITS FUTURE DEVELOPMENT. VENEZUELA SHOULD, THEREFORE, NOT ENTER INTO SUCH A COMPLEX FIGHT WITH ITS HANDS TIED BEHIND ITS BACK. PEREZ STRESSED THAT THE GOV SHOULD HAVE THE POSSIBILITY OF OPEN NEGOTIATIONS IN ORDER TO DEFINE THE BASIS FOR A NATIONAL OIL INDUSTRY WHILE AT THE SAME TIME UNDERTAKING NOT TO COMPROMISE ON THE QUESTION OF STATE CONTROL. TO ACHIEVE THIS OBJECTIVE, THE NATIONAL CONGRESS MUST COOPERATE

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IN THE DECISIONS TAKEN BY THE PEREZ GOVERNMENT. NATIONALIZATION WOULD BE THOUGHTLESSLY DETOURED BY AN ABSOLUTE PROGIBITION ON GOV FREEDOM OF ACTION.

4. MINES MINISTER VALENTIN HERNANDEZ, APPEARING ON THE FIRST DAY OF THE FEDECAMARAS ASSEMBLY WHEN OIL WAS THE AGENDA ITEM, DID SPECIFICALLY MENTION ARTICLE 5. HE REPORTEDLY SAID THAT THE GOVERNMENT WOULD REMAIN CONVINCED OF THE NEED FOR THIS

CLAUSE IN THE BILL NO MATTER WHAT IS THE FINAL DECISION OF CONGRESS ON ITS DEBATE ON THE SUBJECT. IF THE ESSENTIAL CONDITIONS PERMITTING THE GOV A FREE HAND IN DEALING WITH THE PRIVATE OIL COMPANIES AFTER NATIONALIZATION ARE NOT AGREED TO, HERNANDEZ PREDICTED ALMOST IRREPARABLE DAMAGE TO THE VENEZUELAN OIL INDUSTRY

5. THE MINISTER CITED AN OFFER FROM JAPAN FOR ESTABLISHMENT OF A JOINT MARKETING COMPANY AS THE TYPE OF AGREEMENT THAT ELIMINATION OF ARTICLE 5 WOULD PREVENT. HE REFERRED TO THE GOV PLAN FOR UPGRADING ITS REFINERIES AS ANOTHER EXAMPLE OF OUTSIDE TECHNOLOGY THAT COULD BE OBTAINED UNDER THE AUTHORITY OF THIS CLAUSE. IN REPLY TO A QUESTION, HERNANDEZ SAID THAT THE ADMINISTRATIVE STRUCTURES OF THE OIL COMPANIES WILL REMAIN THE SAME AFTER NATIONALIZATION. THE ONLY DIFFERENCE WILL BE THAT THE COMPANIES WILL RECEIVE THEIR INSTRUCTION FROM THE GOV PARENT COMPANY.

6. APPEARING BEFORE THE ANNUAL CTV CONVENTION ON APRIL 28, MINISTER HERNANDEZ DID NOT TEMPER HIS POSITION REGARDING ARTICLE 5, EVEN IN THE KIND OF FORUM WHERE HE MIGHT HAVE BEEN EXPECTED TO TREAD LIGHTLY IN VIEW OF THE WORKERS' COMMITMENT TO TOTAL NATIONALIZATION. HERNANDEZ SAID THAT AS A VENEZUELAN OIL TECHNICIAN, IT WOULD PLEASE HIM FOR THE OIL INDUSTRY TO BE EXCLUSIVELY IN VENEZUELAN HANDS. UNFORTUNATELY, HE ADDED, THERE ARE AREAS WHERE LOCAL EXPERTISE ISN'T SUFFICIENT. THUS, THE GOV FELT COMPELLED TO ADD ARTICLE 5 TO THE DRAFT OIL NATIONALIZATION BILL. THIS WAS PARTICULARLY THE CASE SINCE THE OIL RESERVES THAT VENEZUELA WILL INHERIT FOLLOWING NATIONALIZATION ARE THE MOST DIFFICULT TO EXTRACT, THE MINISTER EXPLAINED.

7. PERHAPS THE STATEMENT MOST CAREFULLY NOTED (AND INTENDED TO BE) WAS THE MINISTER'S COMMENT THAT IF OIL NATIONALIZATION IS UNCLASSIFIED

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NOT WELL CONCEIVED, IT WILL BE THE WORKERS WHO WILL BE MOST ADVERSELY AFFECTED. HE OBSERVED, HOWEVER, THAT IN SPITE OF OFTEN REPEATED COMMENTS THAT VENEZUELANAS ARE NOT CAPABLE OF RUNNING THE NATIONALIZED OIL INDUSTRY, AT PRESENT SOME 98 PERCENT OF THE PETROLEUM WORKERS ARE VENEZUELANAS. BEFORE LONG THE INDUSTRY WILL BE ENTIRELY OPERATED BY VENEZUELAN, HE CONCLUDED.

8. IN DEFENSE OF THE CONCEPT OF MIXED COMPANIES, INVOLVING THE FOREIGN OIL COMPANIES AND THE GOV, MINISTER HERNANDEZ CITED ENGLAND AS AN EXAMPLE OF AN ADVANCED COUNTRY WHICH, EVEN WHILE SUPPLYING 20 PERCENT OF ITS DOMESTIC MARKET THROUGH A STATE COMPANY, STILL AUTHORIZES FOREIGN CONCESSIONS FOR THE EXPLORATION OF THE NORTH SEA. HE ADDED THAT A PARTICIPATION AGREEMENT WITH THE OIL COMPANIES NEED NOT NECESSARILY

INVOLVE CAPITAL STOCK OR MANAGEMENT ARRANGEMENTS. WHAT IS
ESSENTIAL IS A FORMULA TO MAINTAIN THE SALE OF OIL. HE NOTED
THAT THE STATE OIL COMPANY, CVP IS UNABLE TO SELL 23,000
B/D, AND THE THREE VENEZUELAN-OWNED PRIVATE COMPANIES ARE
UNABLE TO SELL COMBINED 15,000 B/D, BECAUSE THEY CANNOT
PENETRATE THE INTERNATIONAL MARKET EFFECTIVELY. IDEALLY, THE
GOV WOULD PREFER TO CARRY ON GOVERNMENT-TO- GOVERNMENT
SALES THROUGH THE MEDIUM OF STATE-OWNED COMPANY. BUT TO
ATTEMPT TO DO SO AT THIS MOMENT WOULD CEDE THE ADVANTAGE TO
FOREIGN PRIVATE COMPANIES, WHICH, HERNANDEZ ADDED, STILL CONTROL
95 PERCENT OF THE MARKETS, TERMINALS AND TANKERS.
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